MCI Communications
Corporation

1801 Pennsylvania Avenue, NW
Washington, DC 20006

EX PARTE OR LATE FILED

EX PARTE

March 5, 1999

Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Ex Parte Submission
Federal-State Joint Board on Universal Service; CC Docket No. 96-45
Forward-Looking Mechanism for High Cost Support for Non-Rural LECs; CC Docket No. 97-160

Dear Ms. Salas:

The attached document contains the HAI Model Sponsors' response to several issues raised by GTE in its February 12, 1999, ex parte in the above-captioned docket. For ease of comparison with GTE's original ex parte, the issues are identified with the same numbers used by GTE.

At the request of staff, we are also providing a disk containing a revised Master.xls file, which will allow all companies to be run with the existing PNR data set. Please associate this document with the above-captioned dockets.

Respectfully submitted,

Chris Frentrup
Senior Economist
MCI WorldCom
1801 Pennsylvania Ave., NW
Washington, DC 20006
(202) 887-2731

cc: Letter and Attachment only - Laurence Schechter, Craig Brown, Chuck Keller, Mark Kennet, Katie King, Hung Le, Bob Loube, Bill Sharkey, Richard Smith

Letter, Attachment, and Disk - Sheryl Todd, ITS

RESPONSE TO GTE'S FEBRUARY 12, 1999 EX PARTE

GTE presents a list of 28 issues. Of these issues 5, 10, and 17 through 28 deal with specific aspects of the Commission's Synthesis model on which the HAI Model sponsors have no comment. The remaining issues are discussed below.

Issues 1 and 2 - Use of households rather than housing units

GTE is attempting to reargue an issue that the Commission has already addressed. Because the model builds to unserved areas, the model most likely places more than sufficient plant to reach all housing units even if it is designed to build to households. In any event, if the model is modified so that it builds plant to all housing units, then housing units must be used in both the development of total costs and in the denominator in determining the cost per line. If used consistently in this manner, building to housing units as GTE proposes is unlikely to make any difference in cost per line.

Issues 3 and 4 - True up of lines and households

The HAI sponsors agree that the model needs to true-up its line counts for those line types that are supported. GTE's example of "distortions" caused by failure to true up household counts is irrelevant, and in fact shows the accuracy of the HAI model data. The examples GTE gives of "distortions" are in wire centers in resort areas, which have a large number of lines identified in the HAI customer location data set, but a relatively small number of Census households, because the housing units are typically unoccupied in April when the Census Bureau makes its count.

Issue 6a and b - Model is missing functional components for OSS and Testing facilities

Model data does include OSS costs. OSS development costs are part of corporate overheads, and the cost of running OSS is part of plant specific or network operations expenses. As to the cost of testing facilities cited by GTE, SARTS is used for testing non-switched special services and is thus properly excluded from a model of universal service costs. For MLT, to the extent the Commission uses existing depreciation data to set switch prices, that data should already include MLT testing facilities.

Issue 6c - Model is missing functional component for Capitalized Labor Costs for Trunk Installation

These costs are already reflected in the HAI default inputs. If GTE is referring to the placement costs for placing fiber in conduit, capital labor costs are included in the input for Interoffice Fiber Cable Investment. If GTE is referring to the cost of labor involved in splicing these fibers, that is included in the cost of Remote Terminal installations. See Section 4.4.13 of the HAI Inputs Portfolio (HIP).

Issue 7 - Model uses high line trunk ratio

This issue was addressed in the MCI Worldcom ex parte of February 9, 1999 and AT&T's January 15, 1999, Opposition to Petition for Reconsideration in CC Docket Nos. 96-45 and 97-160, DA 98-1587 (See footnote 18, page 15-16.) GTE has ignored the switched common and direct trunks, counting only the dedicated trunks. Correcting this GTE error will demonstrate that the line to trunk ratio is appropriate. Indeed, in a March 11, 1997 ex parte in CC Docket No. 96-98, Ameritech argued that a line to trunk ratio of 12:1, such as is reflected in the HAI model, is appropriate.

Issue 8 - Trunk port investment adjustment for end offices and tandem is not needed.

GTE is correct that, if the input data used to develop the default switching investments properly reflects trunk port investment, a specific adjustment in the model is not needed.

Issue 9 - Use of DS1 instead of DS0 in the formula for additional OC3 overestimates OC3 investments

This modification was made in the modules filed by the HAI sponsors with the Commission on February 26, 1999.

Issue 11 - Per-line expense capability will lead to double counting without manual changes to the ARMIS database

GTE is correct that the method used to determine expenses will require that the proper inputs be used.

Issue 12 - Net salvage is used incorrectly in computing depreciation.

The computation of depreciation expense follows the method used by the Commission to set depreciation rates. Thus, GTE's complaint is not with the model, but with the Commission's depreciation rules.

Issue 13 - Marketing expenses are not included in the model

As the HAI sponsors have argued, this cost is not appropriate for inclusion in universal service support costs, and is in any case de minimis. See MCI Worldcom ex parte of February 12, 1999, which showed that the cost would be no more than one cent per customer per month. If this expense needs to be added, it can be included in any of the per line expense categories. However, conventional marketing expenses, such as the cost of promoting customer purchase of second lines and vertical features, is properly not included in the cost of the supported services.

Issue 14 - Operating taxes are calculated based on costs less overhead and customer costs, not all costs.

GTE is incorrect. Operating taxes are applied to customer operations expense (billing/bill inquiry, directory listing, and LNP costs) in the USF sheet. (See rows 28-30 of the Density Zone module and columns HZ through IB, row 3 of the wire center module filed February 26, 1999 by MCI Worldcom.) GTE's claim that the operating tax factor is not applied to overheads is likewise mistaken, because it ignores the fact that, five rows below the cell cited by GTE, the model applies the variable overhead factor to the sum of costs and operating taxes. Since the operating tax and overhead factors are both multiplicative factors, it does not matter which factor is applied first.

Issue 15a and 15b - Inconsistent calculations of SAI expenses and underground feeder placement expense and capital costs

GTE may have a valid point. The HAI sponsors are examining further any changes necessary to remove this inconsistency.

Issue 15c - MDF/protector expense is based on the life of digital circuit equipment.

The life used should be based on how this equipment is appropriately booked in Part 32. It is the HAI sponsors understanding that MDF investment should be booked as switching, and thus the depreciation life used for this equipment should be that for digital switching. This was corrected in the modules filed in MCI Worldcom's February 26, 199 ex parte filing.

Issue 15d - Drop and terminal lives are a weighted average of aerial buried and underground cables.

The depreciation life for this equipment was changed in the modules submitted by the HAI sponsors on February 26, 1999.

Issue 15e - General support allocators inappropriately deduct a portion of corporate and customer operations expenses

The purpose of these allocators was explained in MCI Worldcom's February 12, 1999 ex parte. The Total Operations General Support Allocator recognizes that only a portion of total investment in the General Support categories is used by workers supporting basic local telephone. The Office Worker General Support Allocator recognizes the fact that, of office workers, only workers associated with the network operations expense category plus some portion of corporate operations workers support the provision of basic local telephone service. Therefore, these allocators are appropriately used in the Commission's Synthesis Model.

Issue 15f - Wire Center and Density Zone modules allocate local signaling costs differently.

This difference was removed in the modules submitted by the HAI sponsors on February 26, 1999.

Issue 15g and h - Distribution and feeder underground structure sharing are accounted for in capital costs but not expenses.

GTE is incorrect. Copper and fiber underground cable placement expenses account for structure sharing (see Investment Inputs!DOx of the wire center expense module submitted on February 26, 1999). However, the treatment of these items is inconsistent between the Wire Center and Density Zone models, in that separate copper and fiber maintenance factors are applied in the density zone module to each type of cable placement investment, while in the wire center expense module, the placement investments are subjected to the conduit maintenance factor. The HAI sponsors are examining further any changes necessary to remove this inconsistency.

Issues 15i and j - Various errors in the Wire Center module

These items were modified in the modules submitted by the HAI sponsors on February 26, 1999.

Issue 15k - USF costs in the Wire Center expense module do not include the local portion of tandem switch costs.

GTE may have a valid point. While this should have a de minimis effect on USF costs, the HAI sponsors are examining further any changes necessary to remove this inconsistency.

Issue 16 - Wire Center module applies the sharing percentage of the 650-850 density zone to the entire wire center, rather than using a weighted average.

This was modified in the modules submitted by the HAI sponsors on February 26, 1999.

Attachment A

DOCUMENT OFF-LINE

This page has been substituted for one of the following:

o An oversize page or document (such as a map) which was too large to be scanned into the ECFS system.

o Microfilm, microform, certain photographs or videotape.

• Other materials which, for one reason or another, could not be scanned into the ECFS system.

The actual document, page(s) or materials may be reviewed by contacting an Information Technician. Please note the applicable docket or rulemaking number, document type and any other relevant information about the document in order to ensure speedy retrieval by the Information Technician.

For diskette see docket # 96-45.